

Employer support for Higher Level Skills

A research project supported by the Institute of Public Affairs at the London School of Economics and Political Science and the Association of Colleges, led by Rt. Hon. John Denham, Professorial Research Fellow



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Employer support for Higher Level Skills - Summary and Conclusions

Despite bi-partisan Ministerial aspirations over many years, employer supported training for higher level qualifications has failed to become a major part of the skills system, and may even have reduced.

The project explored three questions

- What makes an employer to decide to support employees, apprentices or trainees to gain higher level skills?
- Has public policy making had been informed by a good understanding of employer decision-making?
- Was there academic research that had, or could have, informed public policy?

On these questions the project draws a number of conclusions.

Most employers who support training at higher level do so for wider business strategy and human resources reasons, not to meet identified skills shortages. This training can be shown to be cost-effective, but assessment is usually undertaken after, not before, the decision to train.

The needs and dynamics of the skills required in different sectors of the economy vary considerably and have not been addressed effectively in policy.

The business department's understanding of employer decision-making on this issue is poor. It is not well informed by either business engagement or academic research.

Business engagement has shown a systemic bias towards employers already committed to training and academic research has also focussed on these employers. The key group of employers are those who have a need for higher level skills who do not currently train. Too little is known about these employers to design policy effectively for them.

Employers describe challenges to developing support for higher level skills that have been identified for many years, yet have not been effectively tackled by well designed policy. These include;

- creating an effective market and provider response for higher level skills
- resolving the tensions between qualifications designed to benefit employees and the needs of employers who are expected to deliver the training
- the tension between policies to meet the needs of diverse sectors of the economy and the desire to have a standard approach to training and public funding
- the capacity of employers to deliver training

Financial and other costs to employers are significant factors in delivering support for higher level skills but are not explicitly recognized as such in public policy. Employer support for higher level skills has moved from locally determined pricing to a system of national tariffs.

There is a limited academic literature on employer decision-making on their skills strategy, but what is available has not been effectively utilised in public policy.

There are significant gaps in data, and little information on decision-making by employers who do not train.

Four things would have improved public policy on higher level skills:-

- if the initial and profound choices about the models underlying the skills strategy had been better understood and more openly considered
- if the evidence on the distorting interaction of targets and investment had been gathered more systematically and been placed firmly into policy discussions
- if the need for better evidence - in this case evidence on employer decisions, and on non-training employers - had been anticipated and commissioned in an appropriate and timely fashion
- if the issues arising from research into the tensions between qualifications and employer requirements, the relationship between employers and providers, and the differences between different sectors and labour markets had been marshalled effectively and addressed in the public policy process.

Features of English skills strategy

The project also identified a number of other key features in policy making for higher level skills.

English skills policy has adopted a supply-side model of skills demand, emphasising the need to increase the number of potential employees holding recognised qualifications. An alternative approach that sees skills as a derived demand of broader business strategies has never been explicitly explored or considered in government.

Employer-supported degrees, which receive no direct public policy support, appear to have grown in number despite an overall fall in the level of employer support for skills. Government initiatives including Foundation Degrees, the Workforce Development Programme, and more recently Higher Apprenticeships and Degree Apprenticeships have shown initial success. They have not developed to scale and the earliest schemes have subsequently reduced in importance.

Consistent ministerial ambition has not delivered a consistent approach to policy or implementation.

Employer-supported higher level skills have been treated as a secondary issue, to be addressed after other elements of skills and higher education policy have been addressed, and effectively lowering the priority for providers. The low priority accorded to higher level skills is reflected in the poor quality of the data collected. Major financial and skills policy decisions have taken without explicitly considering employer support for higher level skills. These decisions have often been taken outside the business department in the Treasury, Downing Street or the Cabinet Office.

The pursuit of targets for higher education entry, vocational qualifications and apprenticeships have frequently created perverse incentives that have not delivered the anticipated outcomes.

One impact of targets has been to narrow the range of publicly funded support available to employers, making public skills policy less able to meet the diverse needs of employers.

It is not clear why the Government's own UKCES has not been able to exercise more consistent influence over skills policy.

Strategic engagement with academia

Future policy-making needs a much more strategic engagement with the academic community. Public policy would benefit from a regular academic overview of issues in skills policy.

An academic and policy council should comprise leading researchers (and reflecting the different schools of thought and analysis). It should also include people with experience of government decision-making and report regularly, perhaps every two years.

Their report ought to;

- highlight major strategic issues and choices facing government
- identify the issues policy makers need to understand in order to implement existing policies effectively anticipate future policy choices facing ministers

The Apprenticeship Levy

This project did not attempt to assess the likely impact of the Levy, but its introduction does show similarities with past policy-making. These include:

- policy with roots in the financial strategy of the Treasury, rather than derived directly from the needs of employers
- a combination of targets and incentives that may produce perverse outcomes
- a lack of understanding of likely employer responses
- little focus on non-training employers (other than levy payers)
- uncertainty whether the market for higher level skills will shape training provision effectively.

The introduction of the levy provides a unique opportunity to study employer decision in real-time in response to a huge market intervention. I hope that suitable wide ranging research studies have already been commissioned.

1. Employer support for higher level skills

i. The challenge

Governments of all parties have wanted to encourage increased employer support for higher level skills and education. Different governments have changed policies and language, but the desired outcome has been shared. It is not an ideologically charged area of policy

Despite this bi-partisan support, employer supported training for higher level qualifications has failed to become a major part of the skills system, and may even have reduced. It is a public policy failure that cannot be explained away by changing party political priorities.

Reflecting personal interests, this short project looked at the public policy making process over the past 15 years. It aimed to establish why policy has not been more successful and looks in particular at the role played by academic research in shaping public policy. It also reflects two interests stimulated by my political career.

As a Minister I was frequently frustrated by the poor interaction between academic research and public policy making. On occasion the available research was ill-focused; on others, officials and ministers were unaware of key research. There are many good links between public policy and academia, of course, but I felt sufficiently strongly about my experience to introduce the high weighting given to 'impact' in the Research Excellence Framework. As Secretary of State at DIUS (2007-9), I launched the Workforce Development Programme that created 20,000 student places co-financed by employers and universities. Later, in opposition, I argued that expanding employer support for higher level skills could help solve the mismatch between graduate supply and demand. It would also widen diversity of routes into higher education, improve social mobility, and reduce costs to students and the taxpayers. My proposals were met with scepticism: employers were widely seen as generally not interested in supporting their employees to gain higher level qualifications.

I hope this report sheds some light on both concerns. I am grateful to the Institute of Public Affairs at the London School of Economics and Political Science and to the Association of Colleges for enabling me to undertake this short research project. I am also grateful to Rachel Fox for her invaluable support and assistance.

ii. The project

It is self-evident that employers will only support higher level skills for their employees if they take a positive decision to do so.

For this reason, the project explored a narrow but important set of questions;

- What makes an employer to decide to support employees, apprentices or trainees to gain higher level skills?
- Has public policy making had been informed by a good understanding of employer decision-making?
- Was there academic research that had, or could have, informed public policy?

Public policy has restricted public funding and recognition to publicly accredited qualifications. A range of informal, unaccredited and company specific training may also be undertaken. Like official statistics, this report presents only a partial account of employer supported training at a higher level.

The research had three strands:

- Interviews with ‘public policy makers’ (civil servants, former ministers, and special advisors who worked on policy issues between 2003 to the present day); and ‘stakeholders’ (including employers’ organisations, and statutory and non-statutory advisory and funding organisations).
- A review of readily available academic literature on skills and employer decision-making
- Interviews and roundtables with employers covering six different sectors and labour markets.

The project was employer focused, but a number of colleges, universities and training companies contributed at different stages of the study and, where appropriate, some of their observations have been included.

Contributors are identified as ‘policy makers’, ‘stakeholders’, ‘employers’ or ‘providers’. In general, I have only included observations that were made by more than one contributor. Where I have relied on one source, this should be clear from the context.

iii. Recent policy changes

Major policy changes were announced after the project was initiated, including the Apprenticeship Levy, the area review of FE colleges, support for specialist FE institutions, and the development of new routes to academic, professional and technical qualifications

Many interviews and roundtables touched on these issues and the likely employer response. The apprenticeship levy was seen by many as a ‘complete game changer’ and precluded much useful discussion of potential alternative policies.

The project did not assess the new policies, the details of which are still emerging. However it does highlight where the recent policy making process bears similarities with the past.

iv. Employer supported higher level skills – the data

The data¹ on employer support for higher level skills is unsatisfactory and incomplete. It is not possible to identify levels of financial support and numbers of employee students by course, qualification or mode of study.

¹HESA (2016) Higher Education Statistics Agency- Free online statistics; Students and Qualifiers [online resource] Available at: <https://www.hesa.ac.uk/stats> [Accessed July 2016]

The UKCES Employer Perspectives Survey 2014² outlines the decline in employer support for internal and external training but does not differentiate between higher and lower levels of skills. It notes that qualifications at Level 3 or higher are ‘most likely to be offered in the Non-Market Services sector (84%).

Broad trends can be identified through the main qualifications that are most likely to have had employer support or which require employer support.

Higher apprenticeships increased in number from 110 in 2006-7 to 19,800 in 2014-15

Degrees (at level 4 or 5) co-funded by employers under the *Workforce Development Programme* increased from 5,000 start in 2008-9 to 20,000 in 2010-11 before being cut as part of the government’s overall austerity programme.

HE qualifications at below honours degree level (including Foundation Degrees, HNCs, HNDs) that are often but by no means always funded by employers increased from 85,000 in 2001, peaking at 125,000 in 2007-8 and falling to 71,000 in 2014. The number of students on such courses fell dramatically from 493,000 in 2009-10 to 157,000 in 2014-15, primarily due to the fall in the number of part-time students.

No figures are yet available on *degree apprenticeships*.

Despite the fall in the number of part-time sub-honours degree students, the total number of students on *sandwich degrees* has increased steadily from 71,000 in 2000-1 to 155,000 in 2014-15. (House of Commons library) Professor Dave Phoenix quotes a total of 235,000 students on *employer sponsored degrees*, estimating this to be 10% of students in UK universities³.

It is striking that the most resilient form of employer support appears to be the one that has had least attention from public policy.

²Shury, J., et al (2014). *UK Commission’s Employer perspectives survey 2014*, Evidence report 88. London: UK Commission for employment and Skills

³Phoenix, D., (2016) *Making a Success of Employer Sponsored Education*, HEPI Report 83. Oxford: Higher Education Policy Institute

2. The public policy making process

i. Skills policy - the underlying assumptions

Skills policy has been driven by a ‘supply side’ understanding of the need for skills. Increasing the pool of skilled labour (usually defined as a public qualification) available to employers should help drive economic growth and productivity. The approach does not directly engage with the demand for skills or the utilisation of skills by employers. As one key stakeholder put it,

‘public policy focuses on skills and on ensuring that individuals participate in the labour market; the deployment of those skills is left to be sorted out in the workplace’.

The supply side model was reflected in targets for participation in Higher Education, NVQ qualifications in Train to Gain and apprenticeship starts. Some academics, policy-makers and stakeholders emphasised that a different approach to skills policy was, in principle, available. This understood skills as a ‘derived demand’. Rather than innovation and productivity being driven by a more skilled workforce, it is the degree of innovation and productivity- and other factors such as regulation and procurement-that drive the demand for skills. The demand for skills arises as a result of prior underlying choices about product market strategy, competitive stance, product or service specification, and the forms of work organization, job design and employee relations needed to deliver these.

This approach would have put more weight on industrial strategy, innovation policy, the wider promotion of licence to practice policies, and the use of public procurement and public sector employment to drive skills demand. Used together, these tools could, it is argued, have done more to produce an innovative and productive economy than a supply side skills policy could achieve. One stakeholder argued,

‘in the absence of an industrial policy, the tendency is for BIS (and its predecessors) to use the tools it has to hand’ (targets, provider reform, and qualifications)

The ‘derived demand’ analysis has support amongst some stakeholders and academics. There is little evidence that the choice of approach has been explicitly considered within the business department or wider government. Some policy makers said that the Treasury was more influential in taking this fundamental decision.

A fundamental choice of skills strategy was made at least 15 years ago, without alternative approaches having been explicitly considered by ministers and senior officials. That choice created the context for the rest of this report.

ii. Skills policy making - knowledge of employer behaviour

Stakeholders and public policy makers agreed that skills policy had lacked a clear understanding of how employers actually take decisions on their skills and training strategy.

The Leitch Report (2006), established Train to Gain, with substantial funding and a heavy emphasis on targets for the achievement of level 2 and level 3 NVQs. One policy maker asserts that the intellectual authorship of Leitch lay in the Treasury. Treasury thinking reflected both supply side orthodoxy and public sector management theory on the effectiveness of targets.

'Leitch reflected economic orthodoxy...most of Leitch is based on macro-economics' (policy maker)

The strategy relied on claimed employee income gain from qualifications gained in the workplace, and the reported gap between UK skills levels and OECD equivalents. Leitch lacked any detailed assessment of the drivers of skills demand in the UK economy and the report did not involve research on how employers would respond to the strategy.

Leitch set targets to raise the proportion of the population with skills at level 4. Compared with Train to Gain, less radical delivery measures were proposed. It was assumed that the expansion of higher education, including Foundation Degrees, would meet much of the need. But it also assumed that, as the returns to employers were seen to be higher, rational employers would be more willing to invest in training at this level.

An overview of policy at the time concluded, however,

'the scale and development of this market remains relatively uncertain. It is an unpredictable and contested market that poses many risks and challenges'⁴

Nonetheless, in interviews, policy-makers, stakeholders and academics all identified a simple key question about employer behaviour:

'is there an incentive for an employer to invest in higher level skills?'

For some, the expansion of higher education, funded by students and the state, has encouraged employers to see higher education as a free good for employers. Any employer investment should be at post-qualification stage. Others observed that an employer would need to be sufficiently dissatisfied with the available skills to justify investing their own money in higher level skills. Some had done so, including JLR and KPMG, but the motivations why were not well understood.

No policy makers claimed that the business department had a functional model to understand employer behaviour (for example, how employers were influenced by cost, or how they make the choice between qualifications and less formal training). Nonetheless, Ministers and advisors generally recognised the weakness of the advice they received on employers' decision-making. Some contrasted officials' poor understanding of business decision-making with their in-depth knowledge of colleges, universities and training providers. Both policy makers and stakeholders thought politicians and advisors had better more rounded engagement with business in opposition.

'When I asked about what small employers would do, it was really as though it had to be investigated from the start; it should not have been the first time it was asked' (policy-maker)

The evidence suggests significant weaknesses in the business departments' understanding of employer decision-making and it is possible that expertise in employer decision-making has not been seen as a priority. Significant progress was always made towards the supply side targets in HE, NVQs and apprenticeships. Judged by government's own skills targets, overall skills policy has been often successful. However, as the Government's recent productivity plan showed, the number of employees receiving time off for training has collapsed over the past 20 years. Employer support for higher skills has fallen. Productivity growth has been

⁴ Bolden, R., and Petrov, G., (2008) Employer engagement with higher education: A literature review Centre for Leadership Studies, University of Exeter: Exeter

consistently weak. As a Home Office Minister responsible for police targets, I dubbed this phenomenon as *'hitting the target but missing the point'*,

iii. The challenge of employer engagement

There is a great deal of engagement and consultation with business and new government initiatives attract employer endorsement. However, this is not an adequate substitute for more informed understanding of employer decisions because engagement with business is not straightforward.

'We need a government that understand business; and business that knows what it wants'
(stakeholder)

Stakeholders acknowledge that businesses do not always articulate their needs clearly. There is no generic 'business view', given the range of companies and labour markets, across private & public sector employers.

Government engagement is too limited to provide well-informed and broad understanding of all types of employer decision-making. Nearly all is with employers who are already committed to training. These companies train their own employees, and advocate training to others. They work hard to make new policies effective (and to shape them to their companies' needs). Policy making shows a systemic bias towards engaged employers.

There is little engagement with employers who do not train, or do not engage with formal training for public qualifications. There is a paucity of academic research into the behaviour of non-trainers. The assumption is that policies designed with committed employers will be attractive to non-trainers; there is no particular reason to believe that this is true. New trailblazer standards are being written by companies that understand their skills and training needs well. But an improved qualification will make little difference to an employer who regards support for training as unnecessary or too costly. Indeed, if the new qualification carries additional costs they may be less likely to participate.

Even for training employers, business engagement usually follows, rather than precedes, major government policy announcements. Businesses that will work hard to make policies work are still rarely involved in initial policy formation. It is hard to identify any major initiatives of the past 15 years which were based on a deep understanding of how employers would respond.

iv. Employer support for high level skills: not a priority issue

Despite government aspirations, employer support for higher level skills has been a second or third order policy issue. Major financial and/or broader skills policy decisions are taken first and then policy on higher skills is adapted to fit within the new policy environment. Key decisions on finance, strategy and targets have often been taken in the Treasury or Downing Street, rather than in the business department and they include;

- the 50% HE participation target
- the Leitch report
- the expansion of higher education and the subsequent removal of the cap on student numbers
- the sharp reduction of public funding for HE and the introduction of high student fees and loans
- new targets for apprenticeship numbers
- the Apprenticeship Levy

These policies have shaped the environment for higher level skills without those skills being at the centre of the policy. There has never been a comprehensive policy for employer support for higher level skills that was developed from first principles. Even if the business department had enjoyed a better understanding of employer decision-making, its ability to embed this in policy would have been limited by the low priority given to the issue.

New policy initiatives were rarely assessed for their impact on higher level skills. The 80% cut in HE funding recommended by the Browne report derived from Treasury requirements. Browne recommended against asking employers to contribute to the cost of higher education (employer contributions as an issue were dismissed in a very short section). This aspect of the report received very little attention, yet it led directly to increased employer costs for higher level skills.

There was a sharp fall in part-time student numbers, many of which had been employer supported, after the large HE fees increase in 2012. Policy-makers said this was initially seen as a problem for provider colleges and universities. The loss of a significant route for higher level skills, with its potential impact on productivity, was not initially recognised as an important issue.

One practical consequence of the low priority given to higher level skills is that the incentives for providers to develop appropriate courses and relationships with employers were also second order. The financial returns from recruiting more traditional undergraduates, or lower level vocational students, were higher (and the costs lower) than delivering higher level skills for employers.

The low priority accorded to higher level skills is reflected in the poor quality of the data collected. It is hard to identify with certainty how many qualifications are being obtained by employer-supported trainees, at what level and through which mode of study. It is equally difficult to establish how the acquisition of formal qualifications fits with company in-house, short course and unaccredited training. No policy objective is likely to be successful if there is no adequate way of measuring its impact.

As we will remark below, higher level skills were also a lower priority for employers (in most sectors at least) than many other aspects of their business, coming after their market strategy, their products and services. It is perhaps not surprising that employer supported higher level skills have not been more deeply embedded in the skills system when they have not been top priority for either government, providers or employers.

The Apprenticeship Levy stems from the Treasury's financial strategy. A Levy proposal was in preparation before the 2015 election and would have been proposed to any incoming administration. With BIS facing pressure on its unprotected budget, the attraction of an employer levy compared to cuts to HE, research or apprenticeship programmes are obvious.

As with previous major policy changes, the origins of the Levy have precluded designing an approach to a training levy in partnership with employers. The existence of a high overall target for apprenticeship starts creates a potential tension with the expansion of the more expensive higher level and degree apprenticeships. We will only learn how employers will respond after the policy is implemented.

v. The impact of targets

Many stakeholders and policy makers, and indeed some employers, expressed concern about the unintended consequences of skills targets. (Indeed, it was hard to find a policy maker who would now make a robust defence of targets).

Targets are integral to the supply side model, but some targets on HE participation and apprenticeship have also reflected government aspirations on social mobility and opportunity. These are important aims but, not being based on identified labour market needs, have helped to distort the skills system. The 50% HE participation target was perceived as having driven a university system dominated by school leavers living away from home, at the expense of a more diverse system including more employer supported degrees. By empowering providers, employer focused qualifications like Foundation Degrees became increasingly absorbed into the broader university system and targets.

'Foundation degrees became a target...distorted their original role as part of the system' (policy-maker)

Some employers believed that the emphasis on HE had shrunk the pool of able applicants for apprenticeships in smaller companies. Substantial funds were made available, creating strong behavioural incentives for employers, training providers and officials charged with delivery. Many qualifications were accredited without any actual training, and it is hard to discern significant productivity gains resulting from the investment.

'There have been occasions where the alignment of employers' interests providers' commercial interests and the Government's interests in achieving targets have led to a less than optimum outcome'⁵

Apprenticeship targets created a tension between delivering the quantity and sustaining quality. At a time when spending on other forms of vocational training has been reduced, the need to meet the apprenticeship target is also seen as squeezing out other forms of training.

The pursuit of simple targets has limited the variety of training on offer. Higher education is now primarily a three year residential experience for young people. Apprenticeships will soon be the only publicly funded model for work-based learning. The narrower the range of styles of training, the greater the danger that what government policy supports is poorly aligned to the type of training that employers will value.

vi. The role of ministers

The broad objective of encouraging employer support for higher level skills has been supported by ministers throughout this period. However, a number of policy makers and stakeholders argued that the organisation of ministerial responsibilities, and the approach of individual ministers, did influence the policy process.

⁵Neild, B., (2012) Apprenticeships- provider perspectives from the heart of the South West, Exeter: South West observatory skills and learning

'Politicians are not interested in skills but will be drawn by a target like 3 million to engage them'
(stakeholder)

The influence of academics might be dependent on the personal preferences of individual ministers.

The responsibility for higher skills has often sat uneasily across different ministers responsible for vocational skills and for higher education. At certain times, Ministers in other government departments, including the Treasury and the Cabinet Office became highly involved in skills policy. One stakeholder said that the Employer Ownership Pilots *'got turned into big money too quickly'* and a senior policy maker confirmed that *'the Treasury pressed more money on us'*

The continuity of ministerial support for the objective of employer supported higher level skills has not provide stability in the way that goal is pursued.

'The systems allows for too much interference by ministers' (Stakeholder).

'There were problems of implementation - it worked when there was ministerial patronage, it was different when there was not' (Stakeholder).

Observations

The weaknesses in public policymaking identified here should not be taken as criticisms of individual officials and advisors. The research has identified systemic issues in the policy-making environment in which individuals have worked.

English skills policy has adopted a supply-side model of skills demand, emphasising the need to increase the number of potential employees holding recognised qualifications. An alternative approach that sees skills as a derived demand of broader business strategies has never been explicitly explored or considered in government.

Despite bi-partisan Ministerial aspirations over many years, employer support for higher level skills have not become established as a significant part of the UK skills system. Employer-supported degrees, which receive no direct public policy support, appear to have grown in number despite an overall fall in the level of employer support for skills. Positive initiatives including Foundation Degrees, the Workforce Development Programme, and more recently Higher Apprenticeships and Degree Apprenticeships have shown initial success but have not developed to scale and the earlier schemes have subsequently reduced in importance.

Consistent ministerial ambition has not delivered a consistent approach to policy or implementation.

Employer-supported higher level skills have been treated as a secondary issue, to be addressed after other elements of skills and higher education policy have been addressed, and effectively lowering the priority for providers. The low priority accorded to higher level skills is reflected in the poor quality of the data collected.

The business department's understanding of employer decision-making on this issue is poor. It is not well informed by either business engagement or academic research. Major financial and skills policy decisions

have taken without explicitly considering the impact on employer support for higher level skills. These decisions have often been taken outside the business department in the Treasury, Downing Street or the Cabinet Office. The pursuit of targets for higher education entry, vocational qualifications and apprenticeships have frequently created perverse incentives that have not delivered the anticipated outcomes. One impact of targets has been to narrow the range of publicly funded support available to employers, making public skills policy less able to meet the diverse needs of employers.

3. The employer view

Policy-makers acknowledged they lacked detailed insight into employer decision-making. The extent to which this matters will depend on whether employer behaviour is consistent and predictable and in line with assumptions made by policy makers.

Twenty private sector employers participated in four seminars or one-to-one interviews. The sectors covered included banking, digital, creative skills (both television and games), optical dispensing, automotive manufacturing and smaller marine companies. These sectors have different skills needs, different labour markets, and range from the statutorily regulated, through those regulated by market discipline and accreditation to unregulated labour markets. Most larger companies participants were senior HR officers with responsibility for apprenticeships, higher level skills and graduate recruitment. SMEs were represented by owners or Chief Executives.

The seminars and interviews generated insight into many aspects of employer skills policy. Here we highlight some of the most relevant issues identified.

i. The employer decision to train

Only a small number of employers supported employee training to meet identified skills gaps. The benefits are seen in employees' relationship to the company and their general capability to do the job. The benefits to employers are clearly genuine. Improved retention, greater diversity and enhanced engagement all suggest that employees also the training and gain from it.

New training strategies had been introduced as part of a wider business or HR strategy. These drivers might be a corporate desire to raise the level of innovation and productivity, a desire to improve retention, demonstrate that employees are valued, create a younger and more diverse workforce, or the ability to offer a high standard of customer service.

'Whilst we look at productivity and competitiveness we are still looking at the customer. The customer informs all of our educational choices' (Employer)

Less business focused drivers included corporate social responsibility, personal commitment from senior management, or the impact of government persuasion.

Strategies were almost always introduced without a costed business case being in place.

'There was no data backing up the need to do this; it wasn't strategic business planning....just thought it was something we needed to do. Electrical engineering as a recognised deficit in the education system, so there must be a gap to fill....there is a business requirement but not driven by strategic planning.' (Employer)

Where companies had subsequently assessed the impact of policy on retention, staff engagement, and return on investment, the initial intuitive or social reasons for training were seen to be cost-effective.

Only one smaller, company had introduced apprentices in response to an identified labour market problem - a reliance on high costs unproductive contract staff. Some employers explicitly said the apprenticeships did not meet immediate skills needs.

'Apprenticeships are not the answer to hotspots'.

These training strategies enable companies to develop and retain the skilled staff their business models demand. They are not generally responding to particular skills shortages. Employers tended to describe recruitment difficulties in terms of employability and attitude.

Public policy assumes that the acquisition of qualifications by employees reflects the business needs of employers, and that the development of a more highly qualified labour force is critical to business performance. Our interviews suggest a loose relationship between these assumptions and the real drivers of business decisions.

ii. Informal and in-house training

All the employers supported extensive in-house training for their staff, including study for professional recognition and to meet regulatory requirements. Though often not externally accredited, much appeared to be at higher level and was directly focused on meeting the skills needs of the enterprise.

A comprehensive understanding of employer support for higher level skills and its impact on the overall skill levels in the labour markets requires a fuller picture of in house and informal training. Several employers felt that it would grow in importance with the ready availability of on-line and self-led training. This training was beyond the scope of this study and is also largely ignored in public skills policy.

iii. Sectors are distinct

The dynamics of training practices in each sector are very different. Not only different skills are needed, butte demand for skills and the pattern of training reflect the powerful influence of the regulatory environment, the pivotal role of prime contractors or other major employers, and the influence of customer demands and expectations.

One motor industry prime was part of well-developed cross-industry collaboration shaping skills needs, could drive its own training strategy, and was able to support its supply chain through practical collaboration on training, and through the enforcement of high standards through accreditation requirements.

'Accreditation drives itself as we have to see results at the end of the day and we need something tangible coming out of it' (Employer).

The marine industry is both diverse and niche and the absence of a dominant prime places much more responsibility on smaller companies to resolve their own skills needs.

'We do 'apprenticeships without the apprenticeship logo... We will go to colleges and different places for different aspects' (Employer).

Television skills development is dominated by the BBC by size and its charter responsibility to undertake training. Many smaller companies in the sector are dependent on short-term contracts and lack the capacity to employ long-term trainees.

The games industry recruits almost exclusively from university graduates; its skills priorities are senior

management skills, shorter and skill/technology specific training courses. The industry has a well-supported strategy of degree accreditation.

There is a regulatory requirement that certain groups of patients should have optometrists prescriptions dispensed by Dispensing Opticians. The regulatory requirement drives steady flow of employer supported trainees.

The major companies in both banking and in digital are adopting broadly comparable strategies to their competitors in their sector, reflecting the similarity of business needs to companies in those sectors.

All of this would suggest that policy has to be sufficiently flexible and adaptable to meet the needs of employers in very different sectors, with very different business models and very different labour markets but public funding policy on higher level skills makes little explicit concession to these sectoral differences. Sector Skills Councils were widely regarded as cumbersome and responsible for the multiplicity of poorly understood qualifications. However different sectoral approaches to skills policy may still be appropriate. Employers involved in Employee Ownership Pilots in the digital and creative sectors reported a good experience of enhanced employer collaboration (see appendix one).

iv. Higher level skills

Our employers had developed a wide variety of approaches to higher level skills.

Two companies had funded schemes at their own expense: A major manufacturer had created its own bespoke, modular training to Level 6 for its entire assembly line staff.

'We need different approaches; modular works well because people can develop the skills they need at the time, but also have pathway to develop further' (Employer).

A major digital company had created a 'degree-apprenticeship' with university and workplace learning.

In both digital and banking decisions to develop higher level employee schemes had two influences: the success of lower level apprenticeships and a desire to diversify graduate recruitment. There appear to be four main drivers for this change:

- as companies gained confidence with lower level apprenticeships there was a desire to extend the model into higher skill levels
- some successful apprentices wished to undertake further training and education
- an understanding the government policy and funding was encouraging this development
- degree apprenticeships might offer a training that tackled the perceived shortcomings of graduate recruitment, particularly a lack of work readiness and the desire to achieve a more diverse workforce

The games industry has prioritised raising standards amongst graduates by accrediting a limited number of relevant university courses. The focus of further skills development is to enable those graduates to achieve work readiness and skills at a more senior level. In television degree apprenticeships are also being developed to create an alternative to established graduate recruitment.

Only one SME had a formal higher level training scheme but several recruited new staff from undergraduate internships. Others offered bespoke support for individual employees by paying fees or guaranteeing

vacation employment.

'If we can find 'the one' we will always take them' (Employer).

Government promotion (and the forthcoming levy) is creating significant interest in degree apprenticeships. However, this is primarily as an alternative to graduate recruitment rather than a complement to it.

Employers and sectoral groups have devised training strategies that are varied and tailored to particular needs. The challenge for public policy is to work with, not against, this diversity of provision.

v. Sub-degree qualifications and the higher level skills ladder

The degree of engagement with level 4 skills varied considerably. However, in general level 4 training tended to be targeted at particular skills needs and functional positions in the workplace. Recent research into new higher level apprenticeships suggests that most are aimed at specific technical skills⁶. No employer described the idealised 'qualifications ladder' on which an individual can progress through a level 3 apprenticeship, in stages, to degree level. Employers would support individuals who wanted to progress, to level 4 or degree level, but several said that few apprentices wanted to progress having opted positively for a different style of learning.

By international standards, the UK is seen as having a particular shortage of employees qualified at higher level but sub-degree level. Building that capacity did not appear to be a priority to all our employers but it was clearly important in some areas including digital, financial and technical skills. The lack of employees with formal qualifications in the workforce may disguise posts filled by employees trained through workplace and short course training and graduates may be filling some of these posts.

While the limited focus on sub-degree qualifications may simply reflect our selection of employers, these discussions suggest public policy on sub-degree skills must reflect sector specific skills needs, and may need to avoid too much reliance on developing a skills ladder for employees. Earlier research by Kewin et al.,⁷ confirmed the limited extent of progress of advanced apprentices to higher education.

vi. The costs to employers

The cost of higher level training is a significant influence on employer behaviour though the impact of price on decisions is hard to quantify. Training employees incurs costs in wages, training costs and loss of productive work time. They must also be able to offer mentoring, line management, and support the organisation of training.

'We need to look at the size of a team and its capacity; key costs are study time (as away from customers), salary costs (especially if you are not increasing head count); we have a finite training budget; higher qualifications are more expensive and the new ones even most costly'.

Despite the initial absence of formal cost-benefit analyses of training, most employers insisted that the cost

⁶Mieschbuehler, R., Hooley, T. and Neary, S. (2015) *Employers' Experience of Higher Apprenticeships: Benefits and Barriers*. Derby and Melton Mowbray: International Centre for Guidance Studies, University of Derby and Pera Training

⁷Kewin J., et al (2011) *Evaluation of the Higher Education Transforming Workforce Development Programme- Report to HEFCE*. Leicester: CFE

was a material factor in determining the scale and take-up of training. They are, in practice, choosing between investing in this form of training and other options including graduate recruitment. A price mechanism is clearly at work, even if it is poorly articulated by employers themselves.

Despite this, the pricing of higher levels skills has not been formally addressed in public policy. Over the past ten years policy has moved from a local market where prices were set between employers and training institutions to a centralised system where prices are set by central government. This is a consequence of other policy decisions, most particularly the general increase in higher education fees.

vii. Internal company decision making

Internal company structures have a significant influence on the take up and deployment of higher level trainees. In some companies, UK subsidiaries have to bid to international owners for training budgets.

'Internal budgets ...are structured by the strategic needs of the business and we bid to the head office in Paris. It is a global decision'.

Some companies have a centralised training budget and decisions on trainee numbers. In others, internal business units need to bid, and pay, for apprenticeships. While some very large enterprises saw both a responsibility and a business benefit to raising skill levels in their sector, others stressed that trainees could not add to the overall headcount. In companies with static or falling employee numbers this is a significant constraint on recruitment. Several levy paying companies did not anticipate recovering their levy because they could not afford to take on new staff. Others were focussed on finding ways of applying the levy to existing employees.

In some sectors, smaller companies exist on a series of short-term contracts, making it hard to commit to longer term higher level training.

'Many employers don't want to employ for more than 12 months because they work in the here and now and this commitment is as much as they can give' (Employer).

In other business models, staff time is charged out to clients limiting the ability to charge for training costs.

Public policy takes very little account of the impact of internal company decision-making, and assumes that all employers operate under similar conditions and circumstance. The real variations in approach to the apprenticeship levy were recently highlighted by the CIPD⁸. As the apprenticeship system develops, these company structures will have a marked, if poorly understood, impact on whether it delivers the outcomes the government is seeking.

viii. Qualifications and the apprenticeship framework

Neither apprenticeships nor qualifications directly meet the real skills needs of employers.

'Qualifications per se don't have as great a value as knowing that people have done things which move them up skills levels. But not necessary really.' (Employer).

There is an inherent tension between an apprenticeship - whose primary beneficiary is the apprentice - ,and

⁸CIPD (2016) Employer views on the apprenticeships levy, Policy report June 2016. London: CIPD

the desire to see employers take more responsibility for delivery. Where the content is closely aligned to employers needs, the tension can be minimised. Where the gap between requirements of the apprenticeship and the needs of employers is more marked, successful delivery will be more difficult, and may lead employers not to engage.

At best, qualifications are a proxy for the skills and capabilities that employers value. Employers distinguished between formal qualifications and the skills and aptitude they were really seeking. Some recognised the value of qualifications to as a mark of individual progression. In some enterprises qualifications were important to establish customer confidence. Professional recognition was essential in certain roles. Employers may be reluctant to deliver and part pay for training that does not well reflect their business needs.

These tensions will be minimised when qualifications and apprenticeships accurately reflect the skills and capabilities employers need. New apprenticeship standards are intended to create that alignment. Those engaged in developing trailblazers were confident that these would be more robust than previous qualifications. But it remains to be seen whether employees who currently do not train for accredited qualifications will now be prepared to do so.

Employers saw government insistence on recognised qualifications as a means of safeguarding public funds.

‘Business understands that if you are going to get public funds, you have to tick some boxes. Whether we will feel the same when we are paying the levy remains to be seen.’

One major stakeholder argued that the government is unduly risk averse.

‘Fear of fraud is driving too much government policy’ (Stakeholder).

Until now, apprenticeships have been one option available to employers. As the apprenticeship levy can only be spent on apprenticeships designed to new more rigorous standards it reduces the choices to employers.

‘It is a shame the government cannot support us on the things that would make our business grow’

Career development may involve different roles, job specifications and re-location. The length of degree apprenticeships, will make it hard to meet fixed apprenticeship specifications. In fast-changing hi-tech sectors, the required skills may change in less time than it takes to deliver a degree. There was concern that there might be too little curriculum flexibility to respond to changing needs.

‘In our business, students need to graduate knowing about technologies that did not exist when they started their course’

New trailblazer standards are being written by companies that understand their skills and training needs well. But an improved qualification will make little difference an employer who regards support for training as unnecessary or too costly.

ix. Training providers

Some issues were raised by a significant number of employers. A small number of providers also contributed useful insights to the project.

Universities did not have a national offer for employers who need to develop staff in every part of the country. Russell Group universities were sometimes mentioned as unwilling to develop their degrees to meet employer needs more closely.

'Russell Group universities don't want to get involved but this is the way (we) will be recruiting in future so they may be out of date' (employer)

Two smaller employers wanted to recruit staff from the more academically demanding universities to provide their innovation and thought leadership, but found it hard to offer graduate development programmes needed to make recruits work ready.

'You want the guy to do a proper degree and then get the transition to work' (Employer).

Employers also saw a weakness in more specialist FE provision. Few colleges offer a sufficiently specialist offer, while colleges required a critical mass of students to justify investment in new courses, recruitment of staff and the development of appropriate qualifications. The delivery of higher level skills worked best where larger employers had a consistent demand for new trainees, or where a clear business need - for example, the need to raise skill levels to meet new contracts - encouraged employers to invest in the facilities needed for higher level training.

'It required the ability to build a training centre - there wasn't a pre-existing provision'. It is a small market, should probably only be one player' (Provider).

Major corporates have sufficient market power to shape provider provision effectively. Other individual employers have insufficient market power to reshape the skills system. The apprenticeship levy will move unprecedented funds into employers' hand. It remains to be seen whether employers can cooperate to shape the provider market. Current policy to develop more specialist institutions will only be successful if the employer market for these skills is better organised than it is today.

x. Employers who do not train at higher level

Some employers had recently moved into apprenticeships, just begun to explore degree apprenticeships or had positively decided not to support higher level skills at the current time.

Those moving in training reported a wide range of motivations, but none suggested it was a direct response to the difficulty of recruiting new staff. Stimuli including 'being government owned', strong CEO leadership, CSR, a sense that 'this is the direction in which things are moving', a responsibility to the wider sector and economy, and an awareness that the market for future talent may move towards degree apprenticeships. The strongest labour market issue was the need to recruit young staff, to refresh an ageing workforce or to utilise new technologies and working practices. Their underlying motives were very similar to established training employers. The influence and example of similar employers in the same sector was often cited as a practical influence on their decision. Some companies were able to meet their higher level skills needs in the current labour market. Other found internal training and informal learning much better suited to their needs.

xi. Employer views of government

Most of the larger employers in our study had engaged with government skills policy over many years, supporting initiatives including Foundation Degrees, Train to Gain, Employer Ownership Pilots and, more recently higher level apprenticeships and degree apprenticeships. Despite this, their views of engagement

with government were not entirely positive.

'There is a mismatch between what employers are looking for and what the government provides; this has been the case for the last 15 years with all of the different training ideas and schemes by the government' (Employer).

'Government has peripheral view on skills, throwing out ad hoc policies in a not so impactful way' (Employer).

This extends to the most recent policy initiatives including the apprenticeship levy.

'We have received a very good video games tax break, but now the apprenticeship levy will take the advantages of being in this country away again.'

'We have had to break down doors to get into discussions with government.'

Observations

Most employers who support training at higher level do so for wider business strategy and human resources issues, not to meet identified skills shortages. This training can be shown to be cost-effective, but assessment is usually undertaken after, not before, the decision to train.

The needs and dynamics of the skills needs in different sectors of the economy vary considerably and have not been addressed effectively in policy.

Business engagement has shown a systemic bias towards employers already committed to training. Academic research has also focused on these employers. The key group of employers is those who have a need for higher level skills who do not currently train. Too little is known about these employers to design policy effectively for them.

Employers describe challenges to developing support for higher level skills that have been identified for many years, yet have not been effectively tackled by well-designed policy. These include

- creating an effective market and provider response for higher level skills
- resolving the tensions between qualifications designed to benefit employees and the needs of employers who are expected to deliver the training
- the tension between policies to meet the needs of diverse sectors of the economy and the desire to have a standard approach to training and public funding
- the capacity of employers to deliver training

Financial and other costs to employers are significant factors in delivering support for higher level skills but are not explicitly recognised as such in public policy. Employer support for higher level skills has moved from locally determined pricing to a system of national tariffs.

4. Employer-decision making on higher level skills - the academic evidence

This project has focused on a simple question:

'why do employers support their employees to gain high level qualifications?'

Public-policy makers lacked good insight into employer-decision making. A limited review of academic evidence on employer decision-making sought to see what might have been available to public policy makers through accessible publications or through advisory bodies. (The review was inevitably limited in scope, and will not be comprehensive. A more detailed examination of the relationship between public policy and the government established UKCES would be very valuable).

i. The supply side debate

As early as 2002, the government's Performance and Innovation Unit concluded that skills were a derived demand. The Leitch Report published in 2006 took a different approach and proposed a strongly supply-side model. Leitch included ambitious targets for qualifications at level 4 and above. This caused a flurry of research to explore how they might be achieved, raising dilemmas familiar today.

'One side tells us that there is a healthy demand for higher level skills but they are dissatisfied with the supply (both content and delivery). While usually accepting the supply of skills is in need of reform, the other side contests either that businesses are not interested in higher level skills, or they are unwilling to invest on the scale envisaged by policy makers'⁹.

The same studies reported that employers' commitment to high level training was not usually in response to difficulties in recruiting suitably qualified staff. Most employers did not make a formal cost-benefit assessment of their training strategies before developing them. HR and business strategy issues, like retention, motivation, diversity, and product innovation, productivity and customer relations, are much stronger drivers. Post-hoc assessments, where carried out, generally justified their investment but cost benefit analyses had not driven the original decision to train. The 60% of employers in the same study that did not train at higher level either saw no benefit to their business, or said that skills were available internally or through external recruitment.

Those studies reflected, much more rigorously, our recent discussions with employers. In broad terms, the research published in the mid-2000s indicated that skills demand reflected business strategies, rather than availability of skilled labour.

The DIUS Select Committee¹⁰ also endorsed this derived demand evidence in 2009:

'The reality is that businesses will only start to undertake higher level skills training if there is a change in the market context in which they think about their business strategies.'

⁹Kewin, J., Casey, P. and Smith, R. (2008). *Known Unknowns: the Demand for Higher Level Skills from Businesses*. Leicester: CFE [online resource]. Available at :http://www.cfe.org.uk/uploaded/files/CFE_Known%20Unknowns_revised.pdf [Accessed June 2016]

¹⁰DIUS Select Committee (2009) Re-skilling for recovery: After Leitch, implementing skills and training policies: Government response to the First Report from the Committee, Session 2008-09. Second Special Report. London: DIUS Select Committee [online resource] Available at: <http://www.publications.parliament.uk/pa/cm/cmdius.htm> [Accessed June 2016]

The politics of the government changed in 2010 but the supply side approach continued to dominate, with new targets for apprenticeship, including the introduction of new targets for higher apprenticeships.

Skills strategy has not engaged effectively with conclusions reached by the PIU, HEFCE, the Select Committee and a variety of stakeholder bodies, as well as academic research¹¹¹². We can make some suggestions for the reasons.

Key decisions affecting skills strategy have been prompted by other departments (including Downing Street and the Treasury), are subject to short-term decision-making, and appear to be poorly informed by employers' views. Higher level skills have been a secondary issue. Once the supply side strategy had been established as government and departmental orthodoxy, the focus of policy, and of research, was on making it work. There was little market for research that challenged the dominant thinking.

*'Contrary views would not have been listened to - because of the dominance of the targets regime'
(Policy maker)*

In consequence, many senior public policy makers were only dimly aware that there was an alternative approach; nor were Ministers or officials well-armed to challenge the pressure on policy from other government departments.

ii. Understanding employer decisions

There seems to be little published research about employer decision making on higher-level skills. A number of studies record the benefits (and obstacles) to employers, but these rarely describe how internal employer decision to train are taken. One academic suggested the dearth of research stems from policy-makers assumptions about employer behaviour.

'simple market models and human capital theory, which have offered the default basis for policy making for the last 30 years, offer a set of beliefs about how employers will react in the context of a marketplace, and these have been believed, often in the face of experience and the repeated failure of policy based on these theories. Believers in a market approach would argue that economic theory already tells us all we need to know about employer behaviour, and that if policy fails, it does so because of poor implementation, not flawed or inadequate design. (Academic communication)

A number of studies do set out what employers report gaining from investment in of higher level skills; within these, a number of consistent themes emerge. The benefits of higher level skills to some employers, and the failure of others to engage has been well recognised in reviews dating back to the mid-2000s.

Analyses of employer support for part-time higher education¹³ said that students gained job-related skills but employer benefits were more likely to be measured in individuals becoming more confident, more-proactive and more likely to stay with their employer, than in measurable factors like increased profitability. These

¹¹ Keep, E., and Payne, J., (2006) From skills revolution to productivity miracle—not as easy as it sounds? *Oxford review of economic policy*, 22 (4) pages 539-559

¹² Sung, J., Ashton, D., and Raddon, A., (2009) Product Market Strategies and Workforce Skills. Edinburgh: Future Skills Scotland

¹³ BIS (2013). *Employer support for part-time higher education students*, BIS research paper number 119. London: Department of Business, Innovation and Skills

employers saw advantages over graduate recruitment, but the studies identified three potential reasons why other employers did not use the same model. They may:

- differ greatly in their needs for higher level skills
- differ greatly in whether they see formally recognised qualifications as the best way of getting the skills they need
- many prefer to rely on internal training, private providers and short courses,

It recommended further research into this group of employers.

The tensions between government insistent on formal qualifications and the needs of employer are also well established.

*'Employers invest in higher skills for a variety of strategic and operational reasons, and learners generally seek qualifications for career progression and personal development. To be effective....employer engagement requires an alignment between the strategic, practical and personal needs and aspiration of employers, providers and learners.'*¹⁴

iii. The influence of cost and other constraints on employer behaviour

Little has been published on the influence of price on employer decisions. It has been hard for public policy makers to know how employers would respond to new pricing structures (thus running the risk either of deterring employers or wasting public money with over-generous subsidies).

Studies have examined the cost-benefits of lower level apprenticeships. These studies have been commissioned with the explicit aim of persuading other employers to engage¹⁵. As formal cost benefit analyses are rarely carried out prior to investment in training. This suggests that the commissioning of research is not well aligned with understanding of employer decision-making.

A 2007 review of work-based learning in the 1990s¹⁶ identified many of the issues in aligning the interests of providers and employers that are still being discussed today. These include:

- creating an effective market and provider response for higher level skills
- resolving the tensions between qualifications designed to benefit employees and the needs of employers who are expected to deliver the training
- the tension between policies to meet the needs of diverse sectors of the economy and the desire to have a standard approach to training and public funding

Although employer capacity to support training was raised in our employer discussion, it was hard to find studies of this element of employer decision-making, or studies of how these decisions are taken in international and foreign owned enterprises.

¹⁴ Bolden, R., and Petrov, G., (2008) Employer engagement with higher education: A literature review Centre for Leadership Studies, University of Exeter: Exeter

¹⁵ Hasluck, C., et al (2008) The Net Benefit to Employer Investment in apprenticeship Training: A Report for the Apprenticeship Ambassadors Network, Warwick: University of Warwick

¹⁶ Reeve, F., (2005) Employer – university 'partnerships': a key problem for work-based learning programmes? Journal of Education and Work, 18(2) pages 219–233

iv. Non-training employers

More needs to be known about decision-making in non-training employers. Not all employers will need higher level skills, or to support their own training at this level. The target for public policy should be those enterprises that appear to have similar potential to benefit but who currently do not make use of all the opportunities available.

v. In-house training

The UKCES publishes substantial surveys of the volume and investment of in-house and short course training. But it was hard to identify any comprehensive studies of the role and extent of in-house and short course company training and how this complemented training for publicly accredited qualifications within individual companies. It is hard to understand employers' overall training strategies without this full picture¹⁷.

vi. Engagement with academics

The business department engages with academics in many different ways and funds a substantial body of research. It is not clear these activities are organised to make the best use of academic expertise. Some policy-makers described academics as more able to provide a critique than to provide a solution. It appears that academics are more likely to be invited to advise on particular questions identified by policy-makers (such as qualification reform), than to help shape the strategic direction of policy, or to identify the strategic issues for policy-makers. Policy-makers acknowledged that the influence of individual academics was governed by a 'gate-keeping role' of some officials, and the preferences (and in some cases personal friendships) of Ministers. As a result, views that challenge prevailing public policy are less likely to be heard at senior levels.

Observations

The choice between supply side and demand side skills policy has not been openly addressed in public-policy making. Debates well understood in the academic community did not reach senior decision-makers.

There is a limited academic literature on employer decision-making on their skills strategy, but what is available has not been effectively utilized in public policy. There are significant gaps in data, and little information on decision-making by employers who do not train. This must reflect a failure to commission or fund relevant research.

Future policy-making needs a much more strategic engagement with the academic community.

Some research has little influence on public policy because it is either delivered too late, or was not relevant to the questions faced by policy makers.

If public policy makers had access to significant academic studies of employer decision-making policy might have created more successful incentives for more employers to participate. It might also have enabled policy makers to understand the likely impact of, for example, raising fees, lifting the cap on university numbers or, indeed, introducing an apprenticeship levy.

¹⁷UKCES (2014). *A new conversation- Employer and college engagement*. London: UKCES

5. Conclusions

Some may think a well-intentioned but flawed public policy process is inevitable: *'it's always been like this and always will be'*. A recent Care Quality Commission report on a failing hospital has called this culture *'learned hopelessness'*.

No public policy will be immune from the politically determined intervention or the broader constraints of the wider economy. But we could bring greater clarity, stability and predictability into policy making, particularly where the aims are bipartisan and the political and ideological differences small.

Four things would have improved public policy on higher level skills

- if the initial and profound choices about the models underlying the skills strategy had been better understood and more openly considered
- if the evidence on the distorting interaction of targets and investment had been gathered more systematically and been placed firmly into policy discussions
- if the need for better evidence - in this case we have looked an evidence on employer decisions, and on non-training employers - had been anticipated and commissioned in an appropriate and timely fashion
- if the issues arising from research such as the tensions between qualifications and employer requirements, the relationship between employers and providers, and the differences between different sectors and labour markets had been marshalled effectively and addressed in the public policy process.

With a strong evidence base it would have been easier to resist policy interventions that disrupted earlier policies before they had matured. It would have given a clear focus and priority to higher level skills.

There is a need to put the relationship between research and public policy on a more organised and formal basis.

Future policy-making needs a much more strategic engagement with the academic community, providing a regular academic overview of issues in skills policy.

An academic and policy council should be established. The council should comprise leading researchers (and reflecting the different schools of thought and analysis) and include people with experience of government decision-making. It should report every two years.

Their report should;

- highlight major strategic issues and choices facing government (such as the supply side/derived demand dilemma)
- identify the issues policy makers need to understand in order to implement existing policies effectively (such as the need to understand employer decision-making). I hope this would influence the commissioning/funding policies of BIS and the ESRC
- anticipate future policy choices facing ministers (they might, for example, have suggested the need to explore the introduction of a training levy).

Ministers should be able to seek strategic advice from the council.

A crucial role of the council would be to anticipate the future policy choices that are likely to confront ministers and ensure that relevant research is timely and well-focused.

In December 2014 BIS published a new strategy for the evaluation of policies being implemented¹⁸. The creation of an academic council could enhance that new strategy by informing the development of future policy.

¹⁸BIS (2014) *Evaluation strategy 2015-16 Annexes: Accountability and learning at the heart of BIS*. London: Department of Business, Innovation and Skills

6. The Apprenticeship Levy

Former ministers and advisors interviewed would all have liked to introduce some form of training levy. Proposals were either blocked by the Treasury or Downing Street, or not pursued because it was known that proposals would be blocked. Those Ministers might envy today's successors despite the challenges involved in implementing the Apprenticeship Levy.

However, its introduction does have elements of past policy making processes that have given rise to weak policy.

- The main drivers for the Levy came from outside the business department, in this case from the Treasury's wider financial strategy. As one stakeholder commented it

'has its roots in solving a problem for government, not a business problem'...

- In the past, the combination of financial incentives and targets has created perverse outcomes that undermined government aims. The Levy creates powerful incentives for levy-paying employers to retain as much of the levy as possible, and for providers to help them do so. The creation of apprenticeship targets incentivises government to prioritise the delivery of apprenticeship numbers.
- Past policies have been introduced prior to real employer engagement. Businesses are now being consulted but poor business engagement has led to poor policy design in the past.
- Employer engagement is almost entirely with employers who do train, rather than those who do not. It is not clear whether powerful incentives are being created for non-levy paying employers to support higher level skills
- The policy does not reflect any academic research into the likely behaviour of employers. Existing training budgets may be reduced to compensate for the cost of the levy¹⁹.

Previous target driven policies have narrowed the range of modes of study, and current government policies may do the same.

Employer needs vary enormously by sector, labour market, company size, position in the support chain, technology, market, current skills base and regulation. The new system must meet these diverse needs.

Past policies have failed to create consistent markets for higher levels skills that can sustain specialist providers. The Levy creates the possibility of a well organised employer led market to complement the local reviews of FE provision, but it is not clear that this will emerge across all sectors of the economy.

This project engaged larger employers who are currently taking decisions on training policies. The introduction of the levy provides a unique opportunity to study employer decision in real-time in response to a huge market intervention. It is to be hoped that suitable wide ranging research studies have already been commissioned.

¹⁹ CIPD (2016) Employer views on the apprenticeships levy, Policy report June 2016. London: CIPD

Appendix one: Employer Ownership Pilots - a brief history and case study

Employer Ownership Pilots were mentioned by policy makers and stakeholders, and some employers had taken part in pilots. EOPs illustrate problems that have often afflicted public policy making.

By 2010 it was clear that Train to Gain and the expanded apprenticeship programme, whilst numerically impressive, had not delivered quality skills or productivity gains.

The Public Accounts Committee was critical of the cost-effectiveness of Train to Gain. The Richards Review of 2011²⁰ states that apprenticeships 'had become government-led training schemes, shaped by training professionals not employers'. Richards wanted employers to control public funding for apprenticeship training.

In the same year the United Kingdom Commission of Employment and Skills (UKCES) published proposals for Employee Ownership Pilots. The UKCES also wanted employers to take ownership of the training and skills system. They explicitly described this as a *long-term* process.

The EOPs were launched with £250m of public funding. The original aspirations were for more modest funding only developing the strategy as experience was gained over time. The increased funding resulted from a Treasury intervention that had not been sought by policy makers or stakeholders. A key decision on skills strategy was taken in the Treasury by people who had little engagement with skills policy. The increased funding changed the nature of the EOP pilots, placing a greater emphasis on achieving volume of training.

Neither the UKCES nor the Richards Review published evidence of how employers would respond to the new opportunities. With the benefit of hindsight, the UKCES and Richards reports would have been more convincing if they had discussed which employers were likely to respond, and why. A number of employers who had been involved in the EOPs expressed reservations about the degree of responsibility they were expected to take.

In 2013 the government endorsed the principle of moving public funding to employer control, and promised that these principles would be explored in the Employee Ownership Pilots. The initial findings of the first round of EOP's were published in March 2015. Despite the earlier promise, the evaluation did not draw any conclusions about the design of an effective system of employer control of public funding, nor make any proposals. Equally significant, the evaluation was published just four months before the announcement of an Apprenticeship Levy. The approach of long term employer voluntarism embedded in the Employee Ownership Pilots and the Richards Review had now been set aside.

In these moves towards employer ownership, higher level skills are barely discussed as a particular object of policy, though it is clear they were included within them. Employer support for higher level skills has been a secondary issue; one addressed only when wider changes have been made to the skills or higher education system.

²⁰Richard, D., (2012) *The Richard Review of Apprenticeships*- November 2012. London: School for Startups [online resource]. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34708/richard-review-full.pdf [Accessed July 2016]

This brief history highlights flaws in public policy making:

- policies that depend entirely on employer engagement are developed with little real evidence on how employers will actually respond
- it is assumed that employers will engage if public policy is framed properly,
- policies that are explicitly intended to be long-term, and to be developed steadily over time, are rapidly overtaken by new initiatives before any useful lessons can be learned
- policy can be changed significantly by interventions from outside the business department and without the support of those who formulated the policy
- evaluations of policy can be badly designed and unable to contribute to the formation of future policy
- policy may be changed fundamentally before there has been the opportunity to evaluate previous policies.

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